



COMMERCIAL REAL ESTATE
MARKET OUTLOOK 2006
SACRAMENTO AREA

AN ANNUAL REPORT PROVIDING ANALYSIS & INSIGHT
INTO FUTURE REAL ESTATE TRENDS

CBRE
CB RICHARD ELLIS

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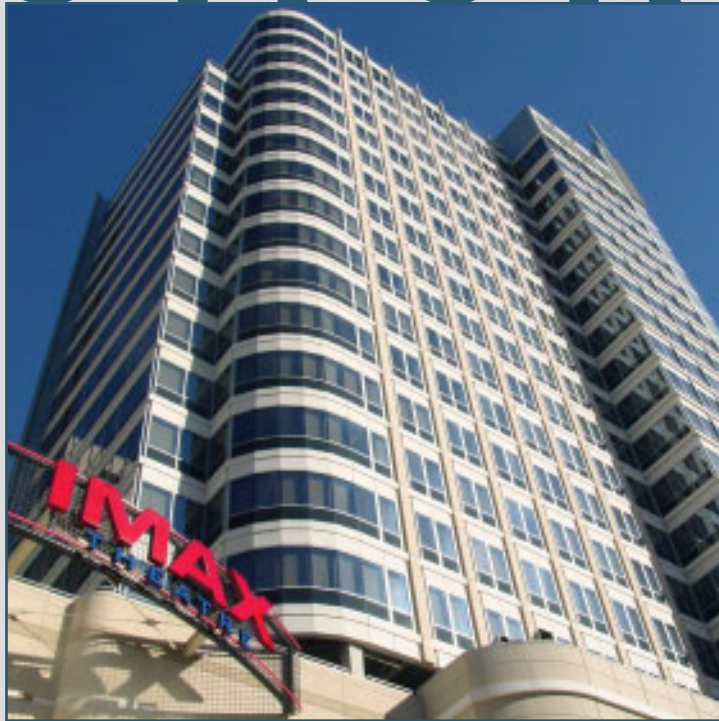


The Sacramento Convention Center in Downtown Sacramento

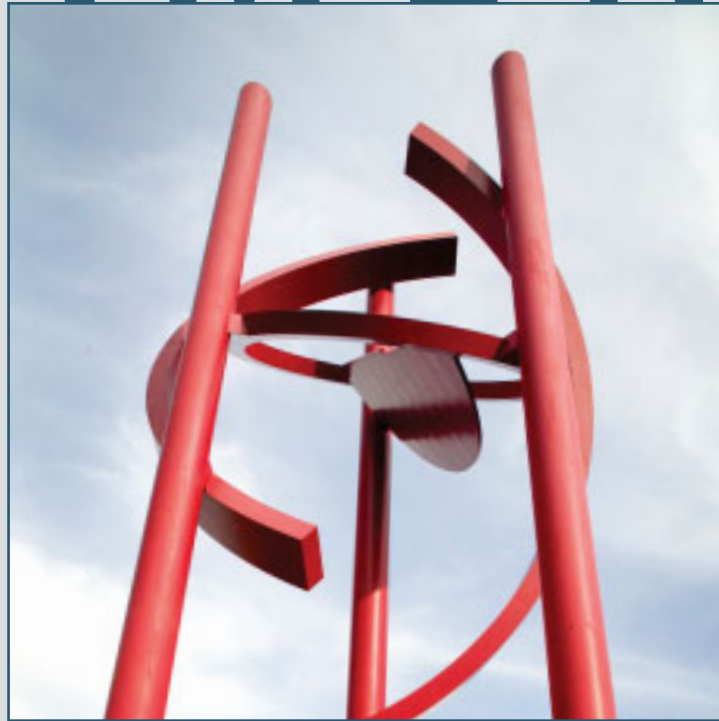
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SACRAMENTO



Pictured from left to right: Esquire Tower at the K Street Mall in Downtown Sacramento; "Cosmos" at Sculpture Park in Roseville; and the Tower Bridge over the Sacramento Riverfront.



AREA

WELCOME

On behalf of the professionals at CB Richard Ellis we are pleased to provide you a copy of our Market Outlook for 2006. The Market Outlook publication and companion Forecast presentation have become a Sacramento tradition in the real estate industry. For over 20 years, we have been producing this Outlook in an effort to provide our clients the highest level of intelligence available in the marketplace. Our local offices in Sacramento and Roseville house over 90 sales professionals and offer a full range of real estate services including brokerage, asset services, mortgage banking, valuation services, project management and lease administration. We support our sales professionals with state-of-the-art technology, the latest GIS mapping capabilities, superior information and graphic design services, and an in-house production center.



Alan Gianini



David Brennan



Iris Andre

CB Richard Ellis, the world's largest real estate company, is proud to have served the Sacramento area since 1952. Now with a total workforce of more than 14,000 employees and locations in 49 countries worldwide, our Sacramento offices have negotiated and closed over 1,000 sale and lease transactions, with consideration valued at approximately \$2.5 billion in 2005. We would like to thank you for the opportunity to work with you this past year and look forward to continued opportunities in 2006.

Sincerely,

A handwritten signature in black ink.

Alan Gianini
Senior Managing Director of Brokerage
Sacramento Region

A handwritten signature in black ink.

David Brennan
Managing Director of Brokerage
Sacramento Region

A handwritten signature in black ink.

Iris Andre
Managing Director of Asset Services
Sacramento Region

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Pictured from left to right: the California State Capitol, and the California State Fair at CalExpo in Sacramento. Below from left to right: the Roseville Civic Center, and the historic Tower Theater on Vernon Street in Roseville.

The Greater Sacramento Region consists of El Dorado, Placer, Sacramento and Yolo counties, and is home to the capital of the State of California. It is one of the most dynamic regions in the state, as well as one of the fastest growing major metropolitan areas in California. The region is also the hub of population and employment activity for the Central Valley.

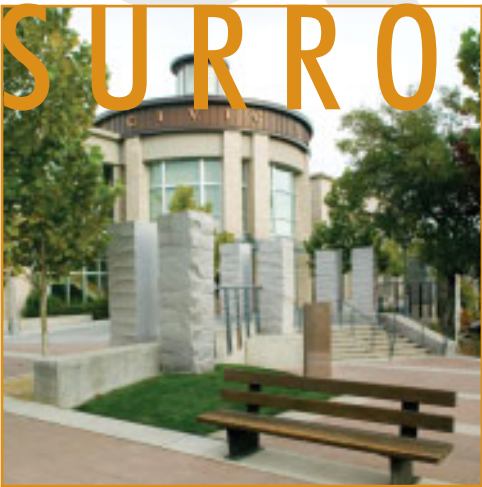
The area's population count is estimated at roughly 2.1 million people. This figure has increased by 140,000 residents since 2000, and is projected to reach a total of 2.4 million by 2010. Rapid growth can be partly attributed to the region's economic stability. Employment numbers have grown by 18,000-20,000 jobs per year since 2000, ranking the region 11th among the nation's hottest job markets. Government employment equals $\pm 26\%$ of the total employment base, while the private sector has demonstrated strong growth in areas such as government advocacy,

insurance, health care, financial service providers and law. Population growth continues to outperform the state as a whole, in part due to the area's concentration of higher education opportunities, varied and stable economic landscape, central geographic location, and relatively affordable housing in comparison to other California metropolitan areas.

The Sacramento Region's diverse and recession resistant economy has made it a premier target for investors, as

well as developers. Businesses find the environment attractive due to affordable land prices, reasonable rents, superior transportation facilities, and a skilled labor force. The region's proximity to the San Francisco Bay Area, Lake Tahoe and the Napa Valley adds to the quality of life offered to its residents.

Data Source: SACTO (Sacramento Area Commerce and Trade Organization), 2005.





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● indicates CBRE office

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Pat Cummings
Industrial Specialist

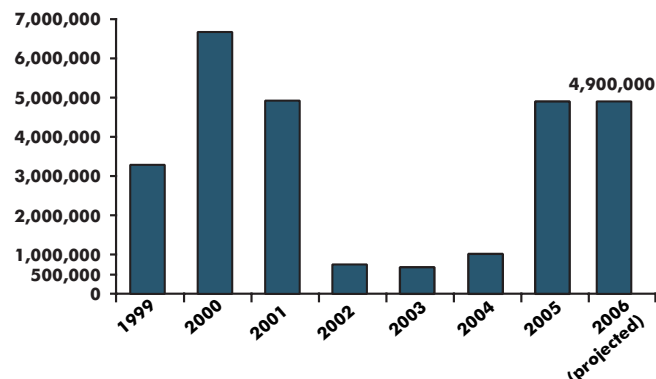
INDUSTRIAL

Pat Cummings specializes in industrial sales and leasing in the Sacramento area. In the past 20 years, he has been involved in over 600 leasing, sales and build-to-suit transactions, totaling over 9.8 million square feet. Pat earned a Bachelor's degree in Business Administration locally from California State University, Sacramento. After two years of globe-trotting, Pat decided that the Sacramento area was the best place in the world to work and raise a family.

2005 OVERVIEW

- 2005's net absorption of 4.9 million square feet more than doubled 2004's 1.8 million square foot total.
- Vacancy dropped to 9.7% from 10.7% a year ago. This is the lowest figure since 2001 when vacancy was at 9.5%.
- Leasing activity in large "Big Box" distribution buildings increased 346% over 2004.
- Investment sales of industrial properties remained bullish with cap rates for institutional grade properties averaging in the mid-six percent range.
- Indoor storage for boats and RV's resulted in leases of 131,000 square feet in West Sacramento, 80,000 square feet in McClellan Park, and a 108,000 square foot expansion in Roseville.

NET ABSORPTION

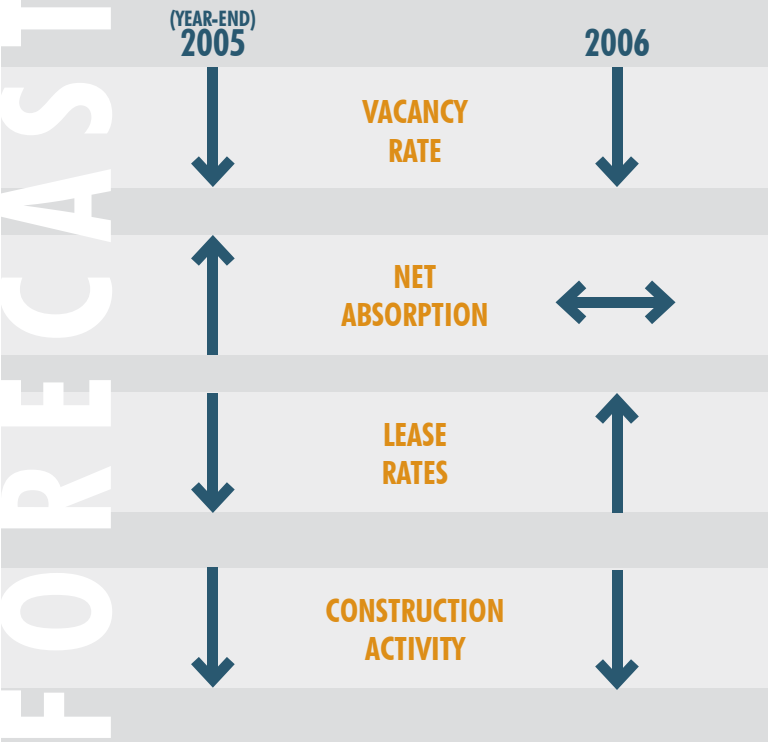




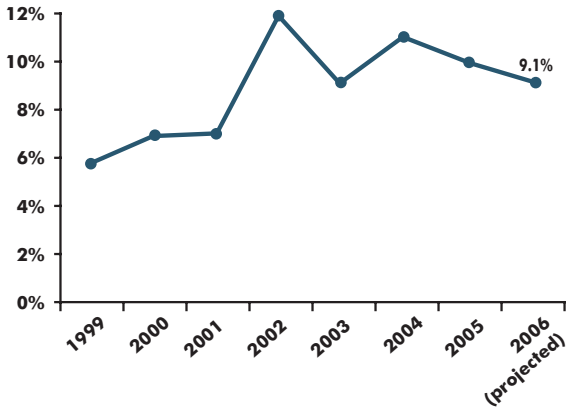
OUTLOOK FOR 2006

- Overall vacancy will remain under 10% and continue to drop due to healthy leasing activity and a slowdown of new construction.
- New construction will slow due to a scarcity of entitled land plus overall costs increasing faster than lease rates.
- As construction slows and vacancies drop, lease rates for warehouse/distribution space will creep upward from the current average of \$.31 NNN.

2006 FORECAST



VACANCY RATE





Randy Getz
Senior Vice President

INVESTMENTS

Randy Getz is an investment specialist engaged in the marketing of office, industrial, retail, and single tenant, net leased properties. Prior to joining CB Richard Ellis, Randy was a partner in a general civil practice. Randy has received numerous sales awards and frequently has been the Outlook speaker for the Sacramento and Central Valley regions. He has also addressed such groups as the NAIOP and BOMA on the subjects of investments and investment analysis. Randy has been honored by the Sacramento Association of Commercial Real Estate, which named him the Investment Broker of the Year for both 2002 and 2003, and the winner of the Broker's Choice award for 2004. Randy also earned membership in the distinguished Colbert Coldwell Circle, an honor bestowed on the top 3% of all CB Richard Ellis producers for 2002, and was in the Top 200 for both 2003 and 2004.

2005 OVERVIEW

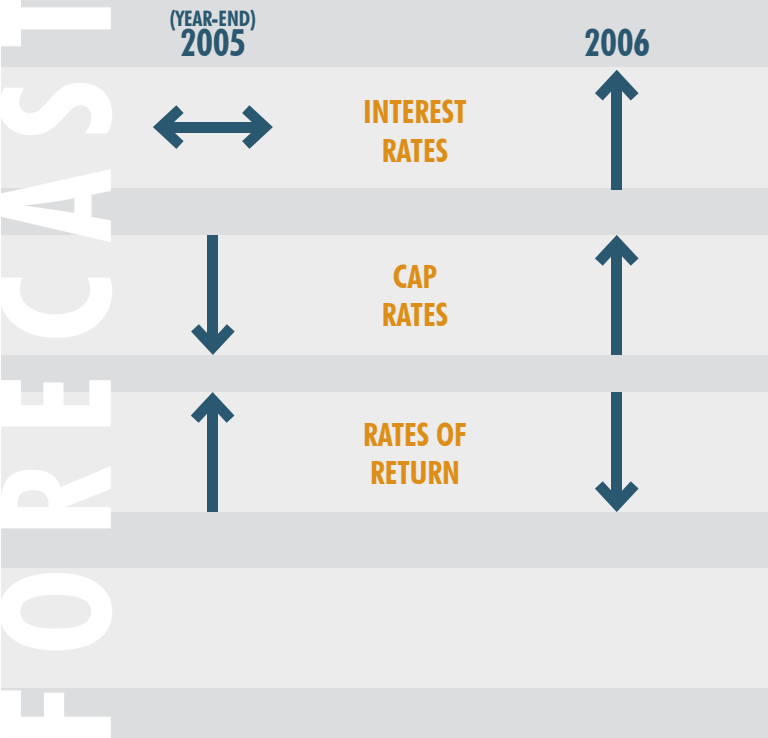
- The resale environment for office, industrial, retail and single tenant, net leased properties was, yet again, remarkably robust and active. The usual suspects acted as enablers this past year: historically low interest rates, a perception that there are few viable alternatives for most investors to even aggressively-priced commercial real estate, a resulting super-abundance of capital seeking a finite number of buying opportunities, and on-going tax-deferred trade activity.
- Rising construction material costs, a shortage of available land at what was once considered reasonable, or normal pricing, and a consistent enthusiasm for acquisition allowed buyers to justify unit values which would have been considered the height of folly only three years ago.
- Capitalization rates were remarkably low—stabilized assets, especially retail, were generating purchaser activity when priced at sub-six percent rates. Industrial properties, if well-leased, were capable of generating similar low yields. Office buildings routinely traded at seven percent caps, with no provision in the underwriting for a vacancy and collection loss allowance or structural reserves.



OUTLOOK FOR 2006

- We do not anticipate any meaningful changes in the salutary conditions which have almost seemed to become the norm over the last three years. True, interest rates will continue to rise, but their effect on cap rate creep will be largely offset by on-going and steady buyer demand for assets of all types. Absent a real and meaningful improvement in alternative repositories for investment, commercial real estate will stay as attractive tomorrow as it is today.
- Single tenant, net leased deals will see their pricing more closely track interest rates.
- Stabilized office and industrial buildings will continue to trade in the seven percent range, while retail, if attractive and possessed of a persuasive story as to location, rent roll, or both, may capture even more aggressive pricing in the low- to mid-six percent cap rate range.

2006 FORECAST





Pete Nixon
Senior Vice President

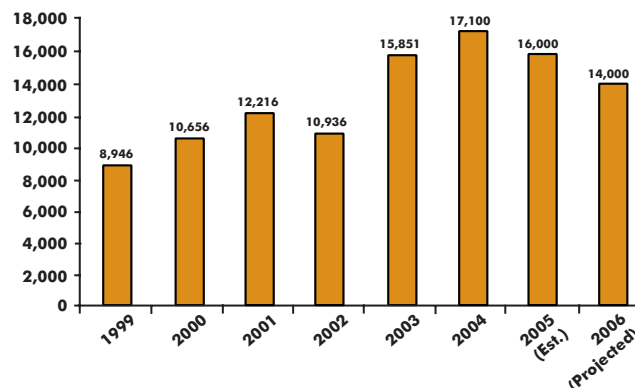
LAND

Pete Nixon is a Senior Vice President based in CB Richard Ellis' Roseville office. Since Pete joined the Roseville office in 1988, he has assisted buyers and sellers in over 250 land sale transactions. His clients run the gamut from land speculators to end-users and from long-time land owners to public entities. Pete has negotiated land sales of retail, office, industrial and residential properties. In 2002, Pete was awarded the Land Broker of the Year by Sacramento's Association of Commercial Real Estate (ACRE). His career includes the sale of well over 10,000 acres from throughout the Sacramento area. Pete was raised in Sacramento and received his Bachelor's Degree from U.C. Berkeley.

2005 OVERVIEW

- Sacramento land and home sales did it again in 2005, capping off a seven year housing run. The market appears to have finally peaked in the 3rd quarter when average new home prices nearly broke the \$500,000 barrier.
- The Sacramento region continued to struggle to deliver an adequate amount of new housing to meet our projected population growth even though new home sales had a fifth strong year. 2005 saw $\pm 16,000$ new home sales.
- 2005 was a year of huge land sales. The size of many deals were staggering, and land values climbed to record levels once again by increasing 10-15%. Average new home pricing rose even as builders introduced higher density detached and attached housing product in an attempt to remain affordable.

NEW HOME SALES



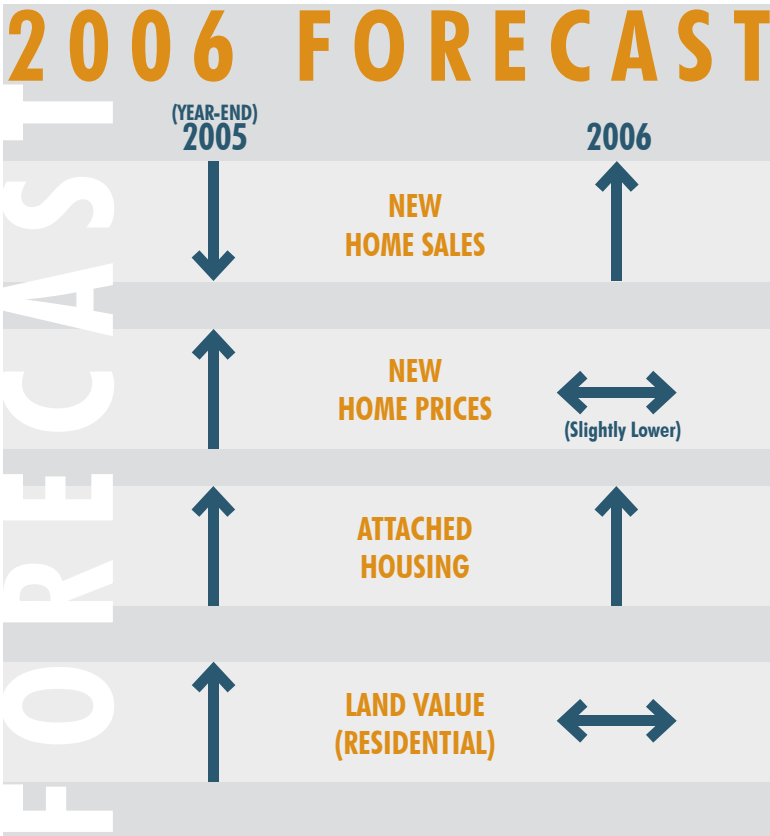


2005 OVERVIEW (Cont.)

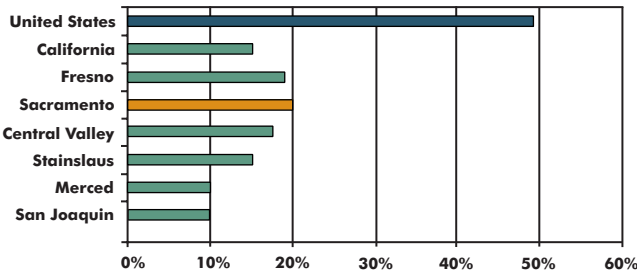
- Housing affordability fell again due to price increases in virtually all components of new homes and as interest rates finally moved up from historic lows.
 - 49% of people in the U.S. can afford a median priced home.
 - 20% of people in the Sacramento area can afford a median priced home.
 - 15% of people in California can afford a median priced home.
- SACOG's "preferred alternative" of higher density housing began to play out, marking what could become a fundamental shift away from Sacramento's traditional lower density neighborhoods of the past.
- Sales of condominiums and housing will have likely tripled in 2005, over 2004 sales, at over 3,000 units. This trend will continue driving down statistical values of new home sales overall.

OUTLOOK FOR 2006

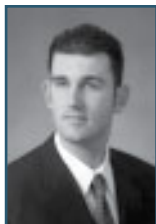
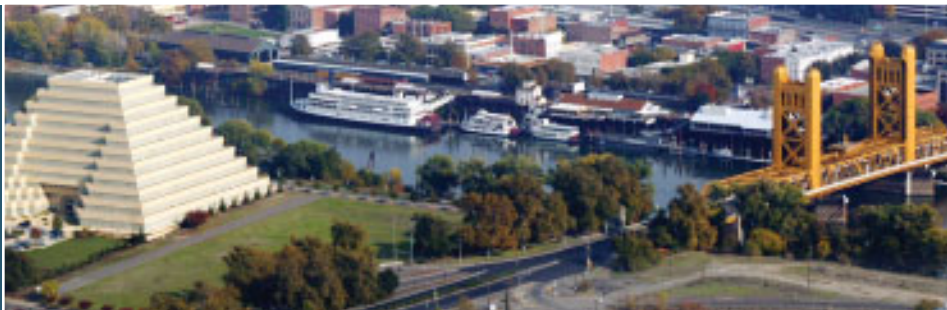
- 14,000 new homes will sell next year.
- Average new home prices to dip slightly to \$485,000.
- Interest rates will remain stable.
- Land prices will stay strong.
- Builders will continue the trend toward higher density housing.



HOUSING AFFORDABILITY (SEPTEMBER 2005)



Source: California Association of Realtors



Marc Ross
 Associate

MUTLI-HOUSING

As an associate for CB Richard Ellis on the Deloney-Dailey Multi-Housing team, Marc Ross specializes in the marketing and sale of multi-housing investments for both institutional and private capital clients. Since joining the team in March 2003, Marc has worked on over 45 transactions totaling \$845 million in consideration and over 9,000 units. In addition to earning a CFA charter, Marc received an MBA from the University of California, Davis, and a Bachelor's degree in Economics from Rhodes College.

3 YEAR SNAPSHOT_(year-end)

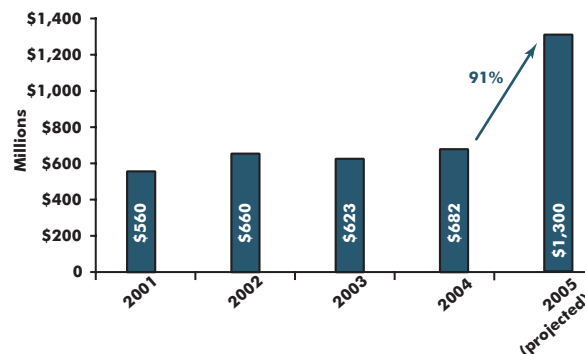
	2003	2004	2005
10Y Treasury	4.27%	4.23%	*4.49%
Cap Rate	7.28%	6.41%	5.76%
Avg Price/Unit	\$72,435	\$81,165	\$103,875
\$ Sale Volume	\$623K	\$683K	\$1.3B

*As of December 6, 2005.

2005 OVERVIEW

- The vacancy rate dropped to 5.7% in the 3rd quarter from 6.4% the previous quarter. This represents the fourth such drop in the last five quarters, signaling a strong recovery from the soft market of 2004.
- By year-end Multi-Housing investment sales in 2005 will exceed \$1.3 billion—almost twice the record level set last year.
- Pricing indicators are at all time highs across the board. Capitalization rates have furthered their descent of recent years and the average price per unit has doubled since 2001, topping \$100,000 this year.
- Sacramento caught condo fever in 2005 with over \$100 million in condo conversion deals. Owners of several more apartment properties are pursuing condominium entitlements.
- After delivering over 4,000 new apartment units last year, the most since the 1980s, 2005 saw new construction drop to just under 3,000 units.

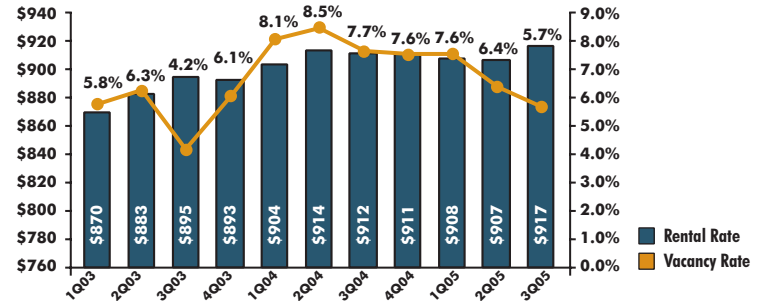
SALES VOLUME



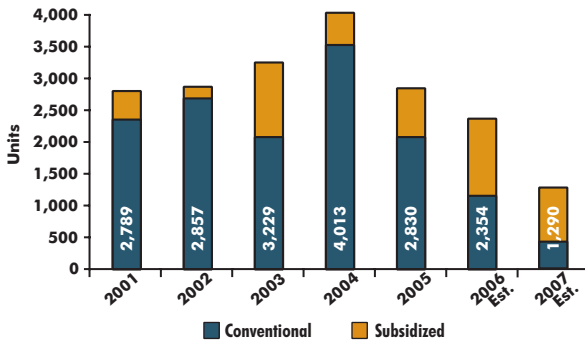
OUTLOOK FOR 2006

- Plan for a continued improvement in operating fundamentals. With the balance of power beginning to shift away from the renter, owners will see real growth again in rents, and in turn, Net Operating Income. This is good news for those investors focused on cash flow.
- For those investors focused on value the outlook is less clear. With interest rates ticking up, it boils down to who you believe will win the projected foot race between growth in Net Operating Income and rising capitalization rates.
- We will continue to see a steady decline in new construction for the next few years. The condo inflated pricing of land zoned for high density residential has squeezed out conventional apartment development.

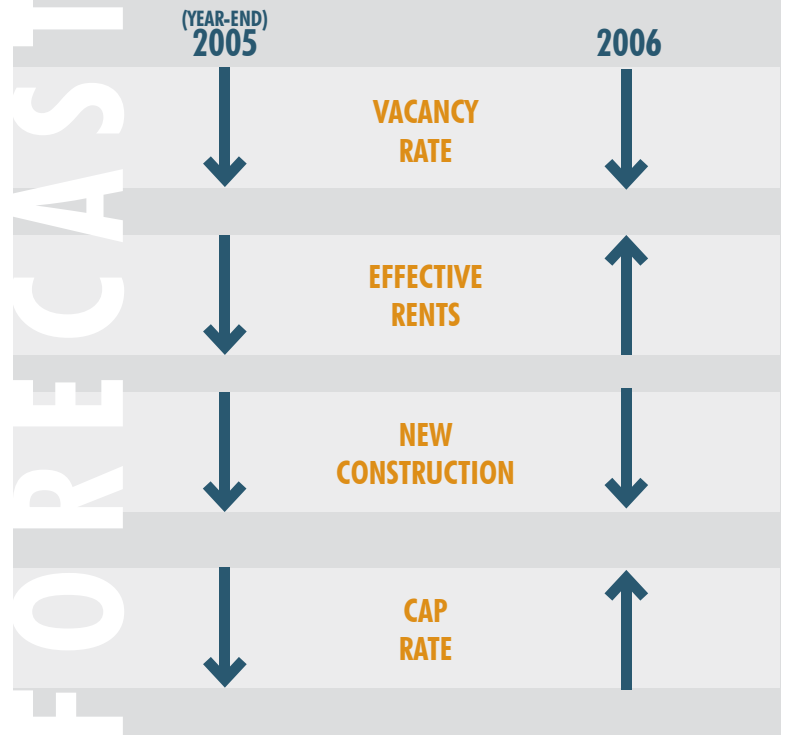
RENTAL & VACANCY RATES - QUARTERLY TREND



NEW CONSTRUCTION



2006 FORECAST





Kevin Sheehan
 Senior Vice President

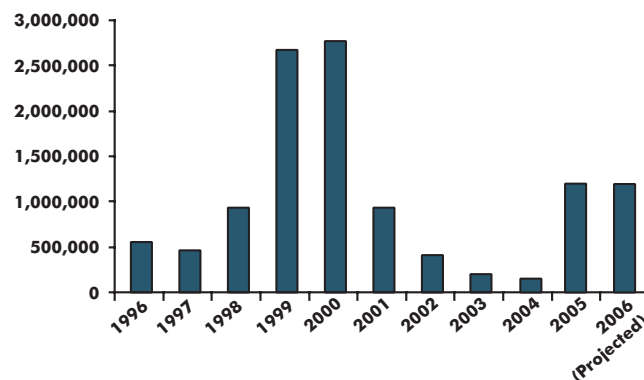
OFFICE

Kevin Sheehan has 19 years of experience in the Roseville office of CB Richard Ellis, Inc., specializing in the tenant/buyer side of land sales, the sale of commercial properties, and office leasing. Kevin has achieved CB Richard Ellis' title of Senior Vice President, in addition to being a "Top 3" producer in his office for 15 of the past 19 years. Kevin is a partner in the Swettenham/Levi/Sheehan team. The Swettenham/Levi/Sheehan team is a team of ten professionals focused on the planning, leasing and sales of major office and multi-use developments for both the private and public sectors. In terms of volume, square feet leased and commission generated, the Swettenham/Levi/Sheehan team is the #1 office team in Northern California.

2005 OVERVIEW

- Increased leasing activity for larger deals occurred in Highway 50, Roseville and to an extent in the downtown area.
- The consistent and never-ending growth of California creates the need for more medical, insurance, real estate and finance companies to meet the needs of the growing population.
- Small building developments for sale to users continue to be one of the most active sectors of the office market.
- Call center activity has slowed because of rising rents and housing costs and the availability of cheaper labor in other markets and countries.
- A new wave of developers are becoming very active in the Sacramento marketplace.

NET ABSORPTION



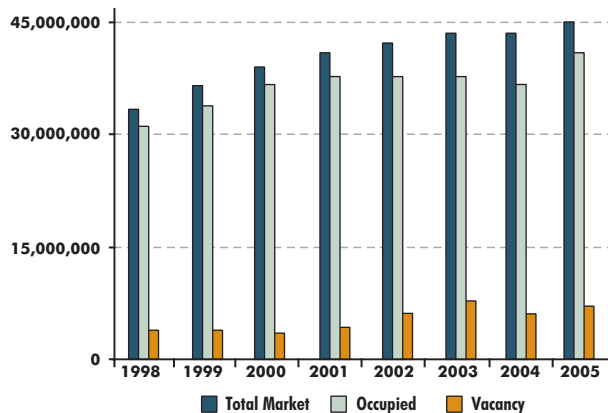
OUTLOOK FOR 2006

- Land prices have peaked and will back off.
- Fees will continue to go up.
- Construction/materials will continue to rise as a result of world disasters and oil prices; an increase of 25% wouldn't be surprising.
- Investment building prices will remain at current levels.
- Rents will continue to rise a small amount except in downtown, where they may remain level.
- Absorption will mirror 2005.
- Small building prices will remain strong and demand for that product type will continue as healthcare related users continue to grow to meet populations needs.

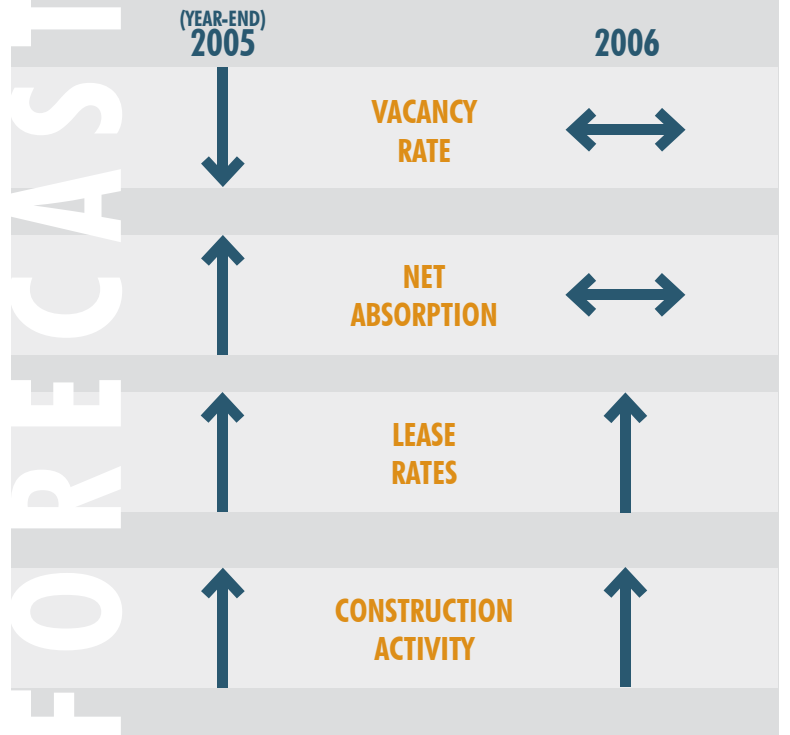
HOT SUBMARKETS

- Roseville/Rocklin
- Natomas
- Downtown
- Elk Grove
- West Sacramento

VACANCY/OCCUPIED SUBMARKETS



2006 FORECAST





Craig Burrress
 Senior Vice President

RETAIL

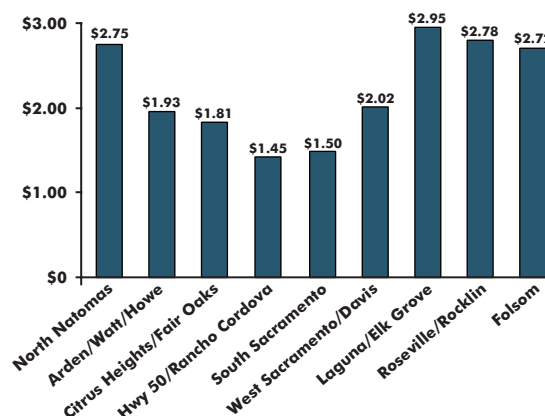
Craig Burrress has consistently been the top retail producer for CB Richard Ellis, Inc. in the Sacramento Region for the past 20 years. He has been nominated “Broker of the Year” twelve times by the Sacramento Association of Commercial Real Estate and won the award in 1994, 1997, 1999, 2002 and 2003. Mr. Burrress’ strength is in client service and work ethic. He has represented most of the active tenants and major developments in the Central Valley Region.

Craig was nominated for the company’s prestigious McCarthy Award in 2004 and is a member of the Coldwell Colbert Circle, the company’s highest achieving producers nationally.

2005 OVERVIEW

- Roseville/Rocklin, Folsom/El Dorado Hills, Elk Grove/Laguna, and North Natomas remain the four large growth areas for the Sacramento region. The city of Lincoln has become a strong sub-market.
- 2005 year-to-date overall vacancy numbers were at 4.5%. The vacancy in the four large growth areas totaled a combined average of 1.6%. These growth areas comprised of approximately 75% of the 2005 leasing volume.
- Both higher end specialty retailers and the deep discounters, in both hard goods and soft goods, experienced strong volumes.
- Rents remain at an all time high, vacancy at an all time low, and there is aggressive tenant activity and high demand for good sites.
- Total planned and under construction square footage for 2005 was slightly above 6 million square feet, compared to 4 million square feet for 2004.

AVERAGE RENTAL RATES BY SUBMARKET



OUTLOOK FOR 2006

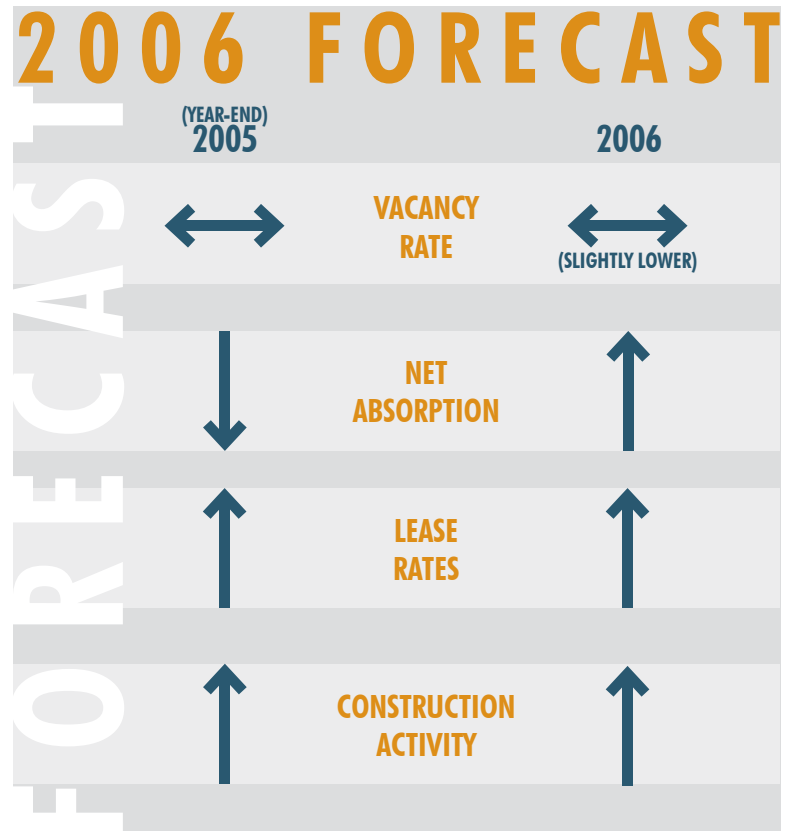
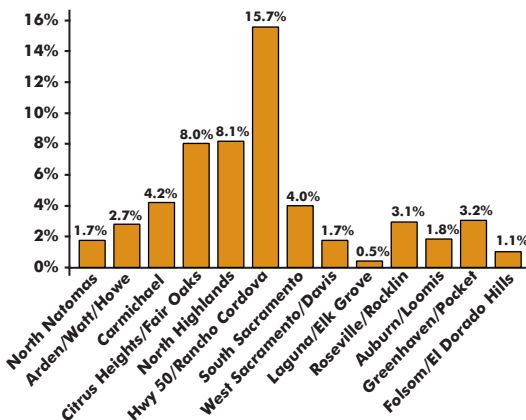
- Vacancy will remain steady at approximately 4.5%, overall – with the growth regions near 1.5%.
- Construction numbers during 2006 will remain high. Absorption will be heavy in the 1st and 2nd Quarters due to the carry over from 2005. Significant growth in Elk Grove, Roseville/Rocklin, Lincoln and North Natomas.
- Average rents for new shops in the growth areas will be \$2.65-\$3.25 per square foot. Grade “A” pads will range from \$28.00 to \$38.00 per square foot. Box rents in the 20,000 to 50,000 square foot range will be \$15 to \$18 per square foot. Retail land sites, between 10-15 acres will be at \$13 to \$16 per square foot, if entitled.
- Specialty retailers and deep discounters will see aggressive sales volumes in 2006.
- High-rise construction in downtown – new retail to occupy ground floor high rises.

- Many new restaurants coming to the downtown – midtown area.
- New major tenants to open in 2006 include Super Wal-Mart, R.C. Willey and IKEA.

MAJOR GROWTH REGIONS

- Roseville/Rocklin
- Laguna/Elk Grove
- Folsom
- North Natomas
- Lincoln (Submarket)

VACANCY RATE



COMPANY SERVICES

With the industry’s most complete global service delivery platform, CB Richard Ellis delivers the people, services, velocity, reach and knowledge today’s business world demands. Our core services lines are: **Asset Services, Brokerage Services, Consulting, Debt and Equity Financing, Facilities Management, Global Corporate Services, Industrial Services, Investment Management, Investment Properties, Project Management, Research and Analysis, and Retail Services.**

Our highlighted service lines in the Sacramento area are:

ASSET SERVICES

CB Richard Ellis is one of the largest commercial management firms in Sacramento. As part of Management Services, our Asset Services division currently provides on-site and off-site management operations for nearly 6.5 million square feet of office, retail, industrial and corporate properties in the Sacramento Region.

Services

- Tenant Relationship Management
- Agency Leasing
- Financial Reporting Services
- Preventative Maintenance
- Property Inspection Program
- Expense Reduction Program
- Project Management
- Security And Life Safety

Value Added Services

- “Axis” Building Portal
- Branding/Marketing
- Employee Development
- Procurement of Site Materials
- Quality Assurance
- Risk Management
- Security Alliance
- Technical Services

CB Richard Ellis provides comprehensive asset services with clear focus on maximizing value. We partner with clients to facilitate an efficient transition, maximize revenue opportunities, lower operating costs while maintaining high service levels and provide accurate, timely property accounting and reporting. We’re proud to serve our Sacramento market.

CBRE | MELODY

Who We Are

Founded over seventy years ago, CBRE’s Mortgage Banking Group acquired the L.J. Melody organization in 1996 to lead the future growth of the firm. Today, CBRE | Melody is one the Nation’s largest, and most trusted, real estate investment banking firms. The Company expects to arrange nearly \$18 Billion of commercial mortgages for our clients during 2005 (a 38% growth in production.) Our connection with CBRE—the World’s leading commercial real estate services firm—provides us with vast resources of market data as well as close connections to the leading market experts across the country, which allows us to arrange a variety of commercial real estate capital requests.

Financing Options

With a National Platform operated from 34 offices staffed with 130 leading professionals in the industry, CBRE | Melody has the ability to align any Borrower with the right commercial real estate capital. We have experience arranging competitive markets for all types of commercial properties. The following loan structures are some of the examples of where we possess market leading experience: Loan Sizes from \$1 Million to \$500 Million; Fixed-rate, Floating to Fixed-rate and Variable/Floating-rate Loans; Short-term and Long-term Permanent Loans (fixed-rates to 25-years); Structured & Bridge Loans (floating-rates from 1 to 3-years and longer) Acquisition & Development Loans (Construction & Rehab financing); Senior and Junior Debt Positions (or combination A & B note structures); Mezzanine Financing and Preferred Equity

Whether it is a refinance or acquisition loan, CBRE | Melody can create the largest competitive marketplace to achieve the best terms for your properties. Combining our capital raising expertise with that of the parent company, CBRE is the leader in making debt and equity markets for commercial properties in the Nation with over \$41 Billion of transaction value.



CBRE

CB RICHARD ELLIS

Pictured from left to right: CBRE Roseville Office at 1512 Eureka Road, and CBRE Sacramento Downtown Office at 555 Capitol Mall.

PROJECT MANAGEMENT

Our Project Management services have been developed to meet our clients' growing need for knowledgeable, experienced leaders who can assist them in making informed decisions; predict project costs and schedule; and successfully manage the design, construction, and relocation process. Our core mission is to add value for our clients. From Planning, through design and construction, to the seamless completion of the move, our team will help you achieve your goals and save you time, money, and headaches.

Save you time—We act as filters so that your staff's input and approval is only solicited when needed, allowing them to focus on their primary task—running your business.

Save you money—Our professionals assist in value engineering, assuring that your design goals are achieved in the most cost-effective manner. You also benefit from our national purchasing discounts on furniture, equipment, carpet, and other high-cost components. With this ability, our team typically saves our clients between 10-15% of total project costs.

Save you headaches—With our involvement, architects, contractors, and furniture vendors will make your project a top priority, since they know that a long-term relationship with CBRE is "on the line."

Project Management Services

Strategic Planning, Due Diligence, Lease Analysis, Project Team Selection, Design Coordination, Furniture Procurement, Bidding and Contracting, Construction Administration, Move Management, Post Occupancy Analysis

VALUATION & ADVISORY

CBRE Valuation & Advisory Services (VAS) is a nationwide organization of experienced professionals, providing appraisal and consulting services to a broad-based national and local clientele. With a local presence in Sacramento, Valuation & Advisory Services focuses on the needs of our clients with a commitment to providing a high quality product produced in a timely manner at a reasonable cost. A variety of investment and commercial banks, corporations, pensions funds, investors, property owners, REITS, and government agencies from around the globe have used our services to satisfy their business needs.

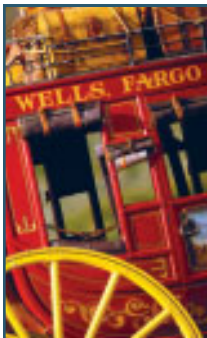
CBRE Valuation & Advisory Services is the most technologically advanced appraisal group in the nation. This directly benefits our clients by reducing delivery time, providing better market data and facilitating the review process—this is especially critical with portfolio valuations.

Our appraisal report formats have been developed by our in-house valuation technology group. Our report is designed to be consistent in methodology and presentation making it easy for our clients to use, review, and understand. This consistency lends credibility to our clients business since third party reviewers and rating agencies know our product and can rely on the results.

Property Types Appraised By Valuation & Advisory

Multifamily; Condominiums/Conversions; Office; Mobile Home Parks; Business Parks; Industrial; Hotels/Motels/ Resorts; Golf Courses/Clubs; Auto Dealerships; Self-Storage; Healthcare; Net Lease Investments.

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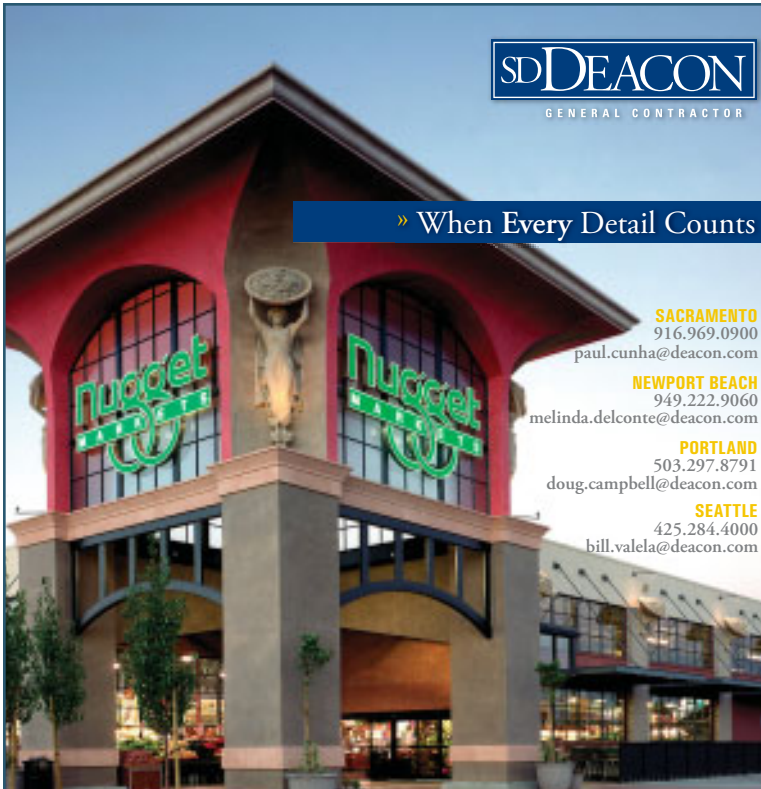
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During this season of reflection and looking ahead to the New Year, we applaud the real estate community for the many successes of the past year and extend our wishes for a prosperous new year.

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